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BRANCH WEEKLY

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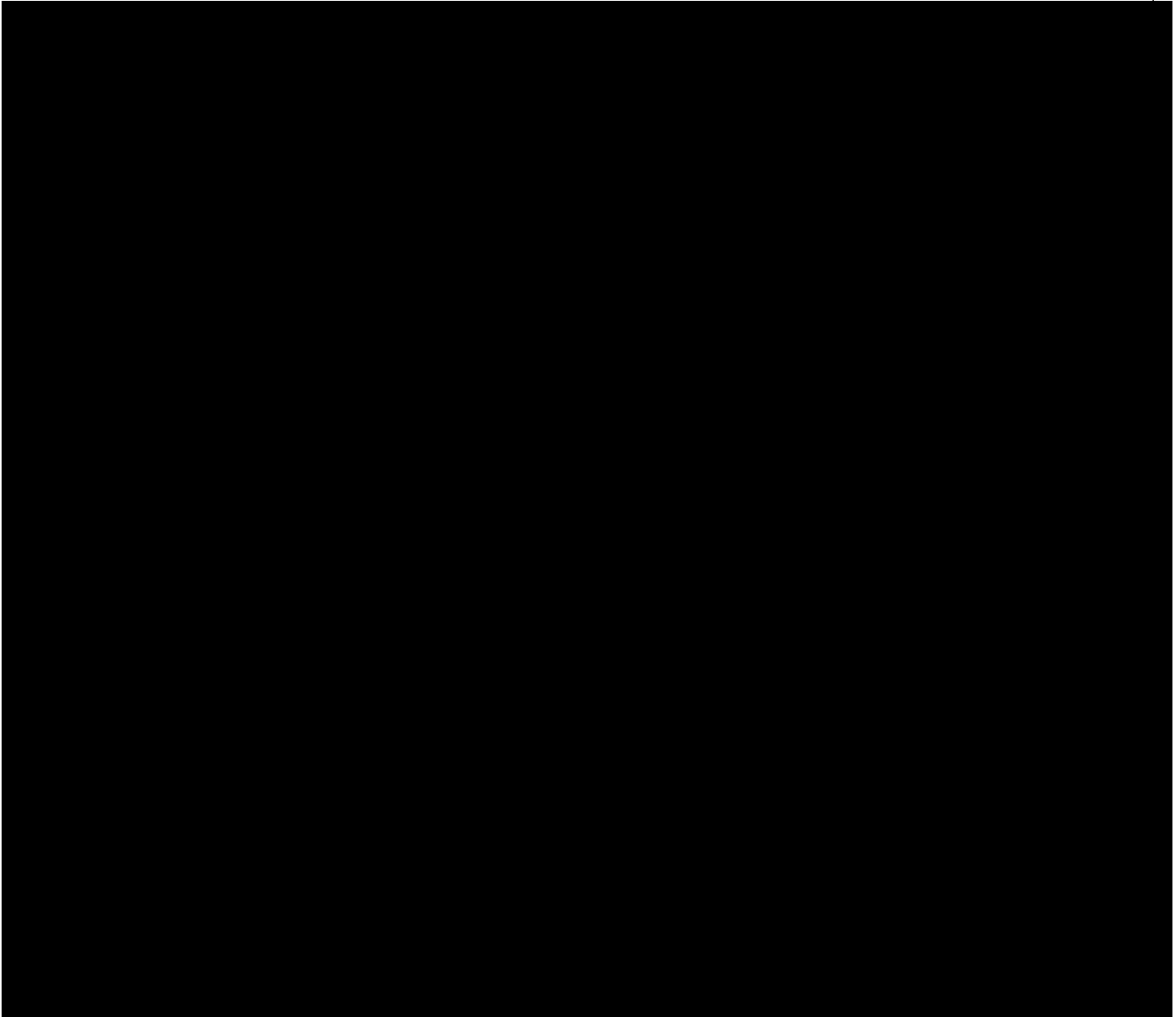
WESTERN EUROPE BRANCH

WEEKLY SUMMARY

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AUSTRIA

A The Austrians, almost unanimously enthusiastic over the considerable progress made on the Austrian treaty at the CFM, will be inspired to renew their demands for the early withdrawal of occupation forces. In this effort, however, they are probably doomed to disappointment. The occupation powers will not be required to remove their troops for three months after ratification of the treaty, which the deputy foreign ministers are to finish drafting by 1 September; a total time likely to be at least a year. The western powers, however, may soon be willing to make modifications to render the occupation less objectionable.

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The CFM produced agreement on the main issues of the Austrian treaty. The USSR is to relinquish the German assets and Soviet war booty to Austria, and in return is to receive \$150 million in six years, oil rights, and all the Danube shipping properties in eastern Austria and the satellite countries. The Yugoslavs receive the right to some \$4 million of Austrian property in Yugoslavia, and the Austrians guarantee to protect the minority rights of the Croats and Slovenes in Austria. These terms impose a considerable burden upon the Austrians, who are nevertheless weary enough of the occupation to accept them.

There remains some uncertainty as to whether the four powers will actually agree on a final draft treaty. It is noteworthy that at the CFM the Soviet Union relinquished no point of its former position, where that point was of direct material interest to the USSR. The Soviet abandonment of the Yugoslav territorial claims, while necessary to clear the way for progress on the other treaty issues, was a sacrifice of Yugoslav, not Soviet interests. Among minor though thorny problems which the Foreign Ministers passed to the Deputies for solution are: (1) the specific list of assets and booty which the USSR will turn over to Austria; (2) the terms governing Soviet withdrawal of profits from the interests it will retain in Austria; and (3) the question of whether disputes between the Soviet and Austrian Governments, arising out of the treaty provisions, shall be settled on a bilateral basis. In these three matters there is room for enough bickering to delay seriously completion of the treaty. The next 60 days should demonstrate whether the USSR is ready for agreement.

FRANCE

B

Rightist groups in the French Government coalition, although still sharply critical of the Government's delay in reorganizing the nationalized industries and the social security system, are being cautious in their demands for action. These groups are likely to accept an eventual compromise rather than jeopardize the Queuille regime. This position, recently emphasized by Rightist declarations of solidarity with the Government, stems from fear that a cabinet crisis might be provoked, resulting in a dissolution of the assembly and in new elections under the present system of proportional representation, which operates to the advantage of the larger parties.

C De Gaulle is unlikely to accept a recent offer of financial assistance from the powerful Employers Association (CNPF), despite the continuing decline of his political prospects. The terms under which the CNPF would offer assistance require a reorganization of RPF headquarters to eliminate certain prominent leaders regarded by the CNPF as too Leftist, and RPF acceptance of Reynaud as Finance Minister, should a Gaullist government be formed. In view of the General's independence and loyalty to his associates, it is doubtful that he would accept such dictation. In any case, Reynaud would be reluctant to become Finance Minister under De Gaulle, and in the event of a crisis involving the present Cabinet, might even try to form his own Government with the support of fellow Independents and elements from the parties of the present coalition.

FRENCH AND SPANISH NORTH AND WEST AFRICA

C The Sultan of Morocco, acknowledged spiritual and temporal ruler of the Moorish Empire under French protection, is expected to become more amenable to French hegemony because of the recent marriage of Princess Lalla Fatima Zohra to the Caliph of Tetuan. This wedding, which unites cousins who separately have been ambitious to acquire the power, privileges, and prestige of the Sultan, represents the greatest threat to the security of the Sultan's throne since his accession to power in 1927.

BENELUX

B Another step in implementing the Benelux Economic Union probably will soon be taken when the list of duty-free goods will be increased, although not to the extent originally contemplated. The negotiations have highlighted the recurrent difficulty of the Netherlands' foreign payments problem. Most of the increased flow of goods will move from Belgium to the Netherlands. Although Belgium is the Netherlands' best customer, far more Belgium goods are received by the Netherlands than can be covered by Dutch exports. A large share of this deficit was met during the past year by Dutch drawing rights on Belgian francs under the Intra-European Payments Agreement, and by direct Belgian Government

credits, but the Netherlands was still forced to pay gold and dollars for the remainder. The Netherlands deficit in trade with Belgium for 1949-50 has been estimated at \$177 million, but delay in a decision on the Intra-European Payments allocations has prevented final Benelux agreement on the size of the Dutch deficit. The Dutch want a firm commitment on outside assistance to cover this deficit in order to preclude further drain on their dollar and gold holdings. This problem will continue to be the most serious obstacle to rapid progress toward a complete economic union.

A Early returns from the 26 June Belgian national elections indicate that another Catholic-Socialist coalition Cabinet will be formed, but only after difficult negotiations. Leaders of the Liberal Party, which made relatively large gains, will undoubtedly seek Cabinet posts. Although the Catholic Party made gains over its performance in the 1946 elections, it did not receive the overwhelming majority it hoped for, and will not be able to form a one-party Government. The Catholics will control the Senate, where they have lacked one seat of a majority; they will, however, be three seats short of a majority in the Chamber of Deputies. The Communists made a bad showing, losing 40% of their popular vote, and nearly half their representation in the Chamber. The Socialist Party will object to a coalition which the Catholics will control, so that extended negotiations will be necessary between the two major parties and the Liberal Party.

It now seems certain that the Catholic Party is not strong enough to force a referendum on King Leopold's return. An immediate settlement of the "royal problem" is not in prospect; it is doubtful that Leopold will ever be allowed to reign again.

ITALY

B Exploitation of the new and extensive methane and oil deposits reported in the Po Valley may be unfortunately delayed by the battle for financial and political control. The outcome of the struggle being waged between government monopoly, private cartels, and competitive national and foreign firms is of basic economic importance to Italy and to the fulfillment of the ERP goals there.

The focus of the struggle is proposed legislation which would increase and protect the sub-soil rights of private oil prospectors. Sub-soil rights in Italy belong to

the State, which may by law delegate them. At present such rights to petroleum and dry gas are operated for the most part by the State through AGIP (Azienda Generale Italiana Petroli). Montecatini (the Italian chemical monopoly) is substantially represented on the Board of Directors of AGIP and subsidiaries. This monopoly, a carry-over from Fascist days, has been characterized in the past by a lack of initiative and petroleum know-how, which has had a deadening effect upon development of Italian hydro-carbon resources. At the same time high exploration costs combined with the lack of legal protection for private findings have discouraged oil development by private firms, either Italian or foreign. Private American, British-Dutch and Italian firms have had only limited success in gaining entrance into the new exploratory fields.

In an attempt to influence public opinion in favor of continuing Government control of petroleum through AGIP, the vice-chairman of AGIP widely publicized the recent reports of new Po Valley findings of dry gas and petroleum. AGIP, he claimed, should receive full credit for the discovery of these fields. He failed to note, however, that the presence of such deposits has been geologically surmised for time, but that exploration and development had not been extensively pushed by AGIP until the last few years, and then chiefly under the competitive pressure of private groups.

Reconciliation of the national interest with the need for the initiative and talent of private investors is a prerequisite to efficient exploitation of Italy's oil and gas potential. Such exploitation would substantially reduce the country's costly dependence on foreign sources of petroleum and coal and would eliminate the economic losses arising from the failure of domestic water power, on which Italian industry now heavily relies.

THE VATICAN

B The Vatican, through the 26 June pastoral letter of the Archbishop of Czechoslovakia, intends to bring the Church-State struggle to a head by demanding recognition of the supreme authority of the Pope in all Church matters, and repeal of the Czech Government's repressive measures against the Church. This letter is also intended to rally Catholics throughout the world, as did a similar letter from Cardinal Mindszenty.

Beyond the militancy in the Archbishop's words, however, the Vatican is apprehensive lest large numbers of Czech Catholics be forced or duped into putting obedience to the State ahead of duty to the Church. The Vatican desires to make clear that the test of Catholic loyalties has come, and to urge that physical pressure from the enemy be withstood. Further, and in apparent recognition of the competition of the Communist economic program, it seeks to stress the traditional role of the Church as the protagonist of social improvement for the underprivileged, a role similarly stressed in a recent article in the Vatican daily, Osservatore Romano.

Concern is held by the Church over the fact that some 1300 persons have reportedly subscribed to the State-sponsored "Catholic Action" group, whose promoters and members have been excommunicated by order of the Holy See. Among some nine million Roman Catholics in Czechoslovakia (about three-quarters of the population), the disaffected group would seem insignificant, but the Vatican fears that it can serve, for propaganda and legalistic purposes, as the nucleus of a pro-State Roman Catholic organization.